

Baoye Group is committed to establishing an orderly, efficient and transparent corporate governance mechanism, which can benefit corporate development and shareholder's returns. Since its listing, the Company with the Code of Corporate Governance Practices, the Listing Rules of the Stock Exchange and other relevant laws and regulations. It has implemented effective corporate governance policy and strives to enhance corporate value so as to ensure the Company's long term sustainable development and maximising shareholders' returns.

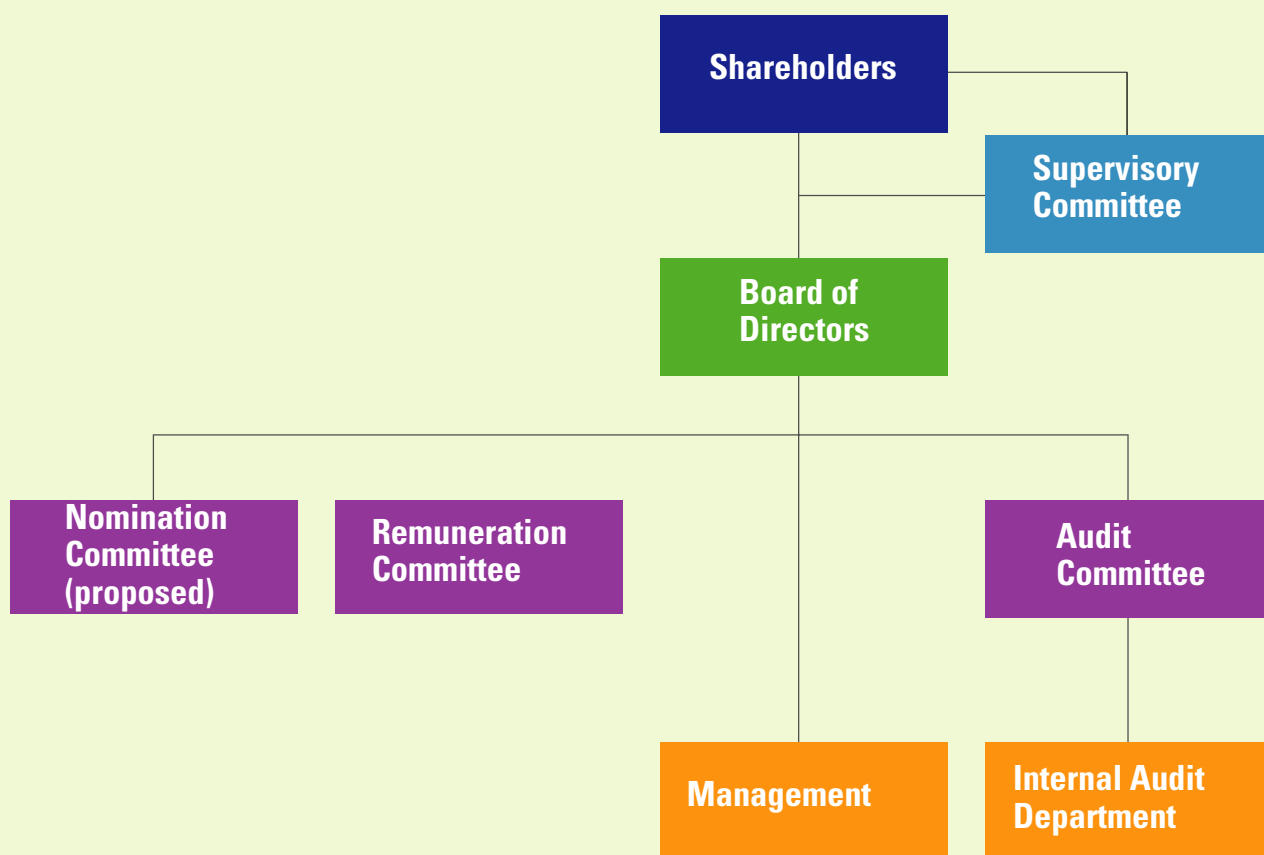


Corporate Governance Report

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Corporate Structure



Board of Directors

The Board of Directors (the "Board") manages the Group's operation and develops strategies on behalf of its shareholders. The Board complies with the rules and regulations mandated by the Memorandum and Articles of Association of the Company in discharging its duties and responsibilities. The Board of the Company comprises 9 directors, of whom 4 are executive directors, 2 are non-executive directors and the remaining 3 are independent non-executive directors. As Mr. Wu Weimin, a non-executive director, has resigned as a director of the Company with effect from 25 January 2006 due to personal reasons, the Company now has 8 directors.

The Company has 3 independent non-executive directors, who represent more than one-third of the members of the Board. Among the independent non-executive directors, Mr. Dennis Yin Ming Chan has professional accounting qualifications and possesses a breadth of experience in accounting and financial management. The other 2 independent non-executive directors are both renowned experts in the China construction industry. The 3 independent non-executive directors make their own contribution to the Board, they provide the Group with very crucial and valuable professional advice not only on business and operations, but also on management control.

The Board of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in the Appendix 10 of the Listing Rules as the code for securities transactions by directors of the Company. After specific enquiry by the Company, the Directors confirmed that they have complied with the model code required by the code for securities transactions for the 12 months ended 31 December 2005.

The remunerations of each of the directors of the Company are disclosed on an individual basis, details of which are set out in note 27(b) to the consolidated financial statements. Since its listing, the Company maintained liability insurance for its directors and senior management each year.

Board Meeting

The Board held a total of 12 meetings during the year. The statistics of the attendance of each director are set out in the table below. The related senior management and members of the supervisory committee of the Group had all attended the board meetings held during the year. Directors will receive notice of board meeting at least 14 days before the date on which board meeting will be held and all of the directors are offered opportunities to suggest any issue for discussion to be included in meeting agenda. All the minutes of board meetings are filed and accessible to all directors at any time.

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Attendance of Board Meeting

Name	(attendance/number of board meetings)
<i>Directors</i>	
Pang Baogen	12/12
Gao Jiming	12/12
Gao Lin	12/12
Zhou Hanwan	12/12
<i>Non-executive Directors</i>	
Wu Weimin	9/12
Hu Shaozeng	12/12
<i>Independent non-executive directors</i>	
Wang Youwei	8/12
Yi Deqing	12/12
Dennis Yin Ming Chan	11/12

Audit Committee

The audit committee of the Company was established in a timely manner following the listing of the Company. All members of the audit committee are independent non-executive directors, comprising Mr. Wang Youwei (chairman of the audit committee), Mr. Yi Deqing and Mr. Dennis Yin Ming Chan. The terms of reference of the Company's audit committee are formulated in accordance with the recommendations in "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants. The primary duties of the audit committee are to review and supervise the Group's financial reporting procedures and internal control systems. It advises on the internal audit scheme formulated by the internal audit department of the Group and review the reports submitted by the internal audit department. It is also responsible for reviewing affairs related to the appointment, resignation and replacement of independent auditors as well as assessing the auditors' performance and whether their audit fees are reasonable, and providing relevant recommendations to the Board. The audit committee held a total of 4 meetings during the year and the 3 members had all attended the 4 meetings. The major tasks accomplished during the year include:

- reviewing the annual and interim reports and accounts of the Group;
- reviewing and providing recommendations on the accounting policy is adopted by the Group and the accounting practice issues;
- monitoring the work of the internal audit department of the Group and reviewing the reports submitted by it;
- advising on the material transactions of the Group and providing recommendations on related risks to the management.
- reviewing the audit fees of auditors and recommending it for approval by the Board.

Remuneration Committee

The Board approved the establishment of remuneration committee at the board meeting convened on 1 April 2005. The remuneration committee is responsible for formulating the remuneration policy in respect of executive directors and senior management, assessing the performance of the executive directors and approving the terms of their service contracts. The remuneration committee comprises independent non-executive directors, Mr. Dennis Yin Ming Chan (chairman of the remuneration committee) and Mr. Yi Deqing, and executive director, Mr. Pang Baogen. The remuneration committee of the Company held a total of 1 meeting during 2005 and all the 3 members attended the meeting.

Nomination Committee

According to the newly revised Code of Corporate Governance Practices, issuers are advised to establish a nomination committee. The primary duties of the nomination committee include:

- reviewing the structure, number of members and composition of the Board and providing the Board with recommendations on any intended changes on a regular basis;
- identifying appropriate candidates for the post of directors and nominating such persons to be directors or providing relevant advices to the Board;
- assessing the independence of the independent non-executive directors; and
- providing recommendations on the plan of the appointment or re-appointment and succession of directors to the Board.

Independent non-executive directors should form majority of members of the nomination committee. The Company has approved the establishment of the nomination committee at the board meeting convened on 7 April 2006. The nomination committee comprises independent non-executive directors, Mr. Wang Youwei and Mr. Yi Deqing, and executive director, Mr. Gao Jiming. Mr. Wang Youwei was nominated as the chairman of the nomination committee during the meeting.

Chairman and Chief Executive Officer

In order to pursue his own personal career and business, Mr. Wei Falin tendered his resignation as the chief executive officer of the Company to the Board. After due consideration and respect for Mr. Wei Falin's decision, the Board approved his resignation as the chief executive officer of the Company at the board meeting convened on 17 June 2005. The Board also expressed its gratitude to Mr. Wei Falin for his invaluable achievements and contributions to the Company during his tenure of office. Mr. Pang Baogen, the chairman of the Board of the Company, has been named as the chief executive officer on a temporary basis until a suitable candidate is identified by the Board to fill the vacancy.

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Chief Financial Officer

Mr. Fung Ching Simon, a Hong Kong qualified accountant, is the chief financial officer of the Group and is also the secretary of the Board of the Company. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a member of the CPA Australia.

Internal Controls Mechanism

• Supervisory Committee

The supervisory committee is the standing supervisory organization of the Company, which is responsible for supervising the functions of the Board and its members and the management such as the general manager and deputy general manager. The supervisory committee comprises 5 supervisors, who will serve for a term of 3 years and are eligible for re-election. The number of members and composition of the supervisory committee of the Company comply with the requirements of the relevant laws and regulations. The supervisory committee is accountable to the general meeting and exercises the following authority in accordance with the applicable laws:

- examining the state of affairs of the Company;
- supervising the directors, general manager, deputy general manager and other senior management in the performance of their duties to prevent them from breaching the laws, administrative regulations or the Company's Articles of Association;
- requiring the directors, general manager, deputy general manager and other senior management to rectify behaviours which will prejudice the interests of the Company;
- verifying the financial information, such as financial reports, operation reports and profit appropriation proposals, intended to be submitted to the general meeting by the Board and appointing registered accountants and certified auditors in the name of the Company to assist in re-auditing whenever they are in doubt with the information;
- proposing to convene extraordinary general meeting; and
- negotiating with or initiating litigations against directors on behalf of the Company.

Supervisory Committee convened two meetings during the year and all of the 5 supervisors attended the meetings. The supervisors of the Company also attended all board meetings during the year.

- **Internal Audit**

The Company has established an internal audit department since its listing. The internal audit department is independent of the financial department or other management departments. It reports directly to the audit committee and the Board. The primary duties of the internal audit department are to monitor and review the effectiveness of the operation of the financial, operational and compliance control and risk management systems. During the year, it has reviewed, monitored, and submitted reports on review and approval system for use of capital, financial budgeting system, system governing signing of economic contracts and bidding budget and final settlement system according to the audit plan. In addition to completing the tasks in accordance with the audit plan, the Company's internal audit department has conducted special purpose auditing on certain subsidiaries and branches of the company during the year. It has proposed numerous constructive recommendations for certain subsidiaries and branches company to improve their deficiencies.

General Shareholders Meeting

The general shareholders meeting not only makes decisions in respect of material issues relating to the Group, but also provides a direct communication channel between the directors, management and the shareholders of the Company. As such, the Company holds the general meeting with due respect and the notice of meeting, which states the process of a poll, shall be dispatched 45 days before the date of such meeting. Shareholders are entitled to demand a poll in accordance with the Listing Rules. During the year, Tengis Limited (the share registrar of the Company), a recognized professional institution, was invited to assign qualified representatives to attend each annual general meeting and extraordinary general meeting to act as the scrutineer for vote-taking. The scope of the scrutineer was described in the respective announcements.

Code of Corporate Governance Practices

The Directors believe that, except that the chief executive officer of the Company is temporarily assumed by Mr. Pang Baogen, the chairman of the Board, the Group has complied with the requirements in accordance with the Code of Corporate Governance Practices as set out in the Appendix 14 of the Listing Rules throughout the year.